

UP FROM WALL STREET: **The Responsible Investment Alternative**

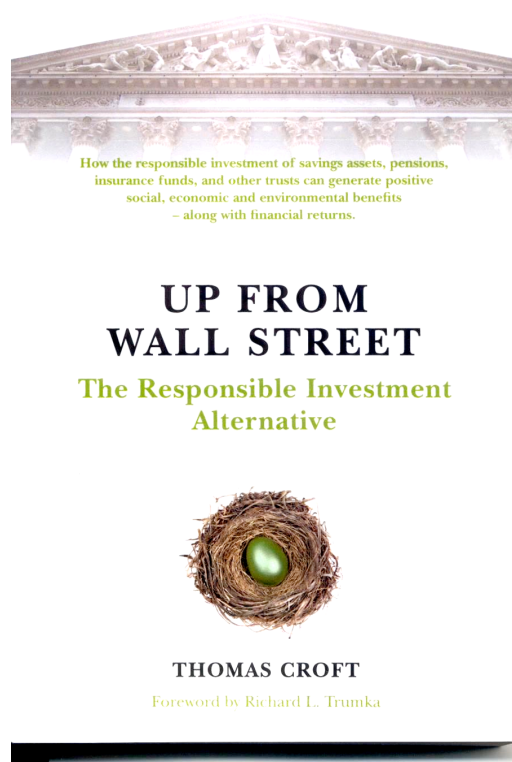
By Thomas Croft

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There are three takeaways from this book that might be useful in the context of this initiative:

- Pension funds and other institutional investors helped drive the financial markets boom in risky, illiquid, hedge funds, mega-buyout funds, and sub-prime mortgages.
- These Mega-Funds, called *Masters of the Universe*, as they were called by Tom Wolfe, have also fueled a new stage in corporate ownership, driven by the strip and flip, heavily-leveraged business model captured in a recent expose on the destruction of the Simmons Mattress company, founded in Kenosha, Wisconsin in 1870. These funds now own and control many of the largest employers in the U.S. and Europe. What does that mean for the people and communities where they are located?
- Pension funds can, instead, invest in critical industries like advanced manufacturing, renewable energy and efficient transportation, and economic sectors like affordable and workforce and multi-family housing, and green buildings and infrastructure.

My book shows that, despite four-five recessions in the last three decades, responsible investors have been, profitably, creating hundreds of thousands of good jobs, building hundreds of thousands of living spaces, and helping to rebuild cities and communities.



Up from Wall Street: The Book

- As working Americans and retirees awake from the aftermath, we're searching for answers and alternatives to the reckless loans and dicey short-term bets that ravaged our savings and retirement assets. *Up from Wall Street* makes the case that there are strategic and socially responsible investment paths that have the capacity to rebuild our economy and infrastructure, reinvigorate our cities, and create the green jobs of the future.
- The new administration is struggling to achieve a real economic recovery. *Up from Wall Street* shows that the assets and savings of working people, students, insurance holders, endowments and retirees—our institutional investments--amount to over \$24 trillion in the U.S., and similarly large amounts in Canada. We can put some of that money to work to rebuild the Great Lakes states and communities, on both sides of the border.
- Instead of feeling helpless, teachers and steelworkers, students and insurance holders, nuns and bank depositors should harness and unleash the power of “our money”—the assets in retirement accounts and mutual funds, insurance companies, university, hospital and foundation endowments and college savings funds—to invest in long-term strategies that build up, instead of tear down, our companies, communities and society.

Wall Street: The Wrong Alternatives

- These institutional investment approaches can be prudently made within the spectrum of what are called alternative investments. But many investment managers invested in the *wrong* alternative investments, leading to short-term speculative investments in mega-hedge and private equity funds, derivatives and sub-prime mortgages, etc. These wrong investments contributed to the global financial markets crash and the worst recession in over a half-century.
- As Wall Street formulated these exotic, unsustainable new markets, they destroyed workers pensions, companies, communities. Dozens of large public pension funds (like the pension funds of PA, Mass., and NJ), and hundreds of universities and endowments (like the University of Pittsburgh and CMU), unfortunately, helped finance many of these schemes, losing hundreds of billions.
- What's Behind this? Financialization: Financial sector profits, as a percent of domestic corporate profits, rose from 16% in 1973 to 41% in 2000s. The share of pension/institutional funds as a percentage of hedge funds rose from 2 to 50% of the hedge fund market from 2002-2007. The debt over-hang forced by the mega-buyout funds on its portfolio firms has contributed to the collapse or bankruptcy of many long-standing corporations, like Mervyns, Linens & Things, and now Simmons. These unregulated markets became so large they were actually called the *Shadow Bank* system.

The Responsible Alternatives

- Our money should instead be responsibly invested in the *right* alternatives—investments to retain and create good jobs, re-build affordable housing and invest in the renewable energy and mass transit jobs of the future. In other words, in long-term investments. We can also explore strategic partnerships with the government and other investors to invest in our communities and cities, if we are to achieve economic recovery.
- *Up from Wall Street* shows that worker-friendly investment funds, in fact, can have singular and significant impacts on the regions, economic sectors, companies and projects in which they invest. Included in the book is our new "Field Guide to Responsible

Capital," which examined portfolio investments that yielded not just good returns-on-investment, but also collateral benefits for working people and the environment.

- Prudence is being re-defined in the pension world as incorporating integrating ESG criteria into investment decisions. As AFL-CIO President Richard Trumka points out, *Up* argues that investing in “economically-targeted investments,” undertaken within the guiding ethos of responsible investment, allows capital stewards to truly serve beneficiaries (us) and their communities over the long run.
- We need a *third wave* of responsible investment to reshape the idea of investing beyond investing in housing and jobs. This third wave approach, pioneered by labor union trusts, combines capital commitments to real estate and enterprises with investments in human capital, renewable energy and efficient transportation. We can achieve economic revitalization results on a larger scale if we pool our investments—using strategies such as co-investing and joint investments, cross-border investing, new government partnerships---while building multi-use projects such as multi-family housing connected to innovative and green jobs and clean energy/transit grids.

Examples of Responsible Investments

- The Octagon at Roosevelt Island, NYC, MEPT Fund: Rebuilding a burned down, abandoned facility that was the Metropolitan Hospital built in 1839, the MEPT Fund converted this tip of the island into two residential complexes providing 500 new living units, built union, winning the city’s Green Apple Award for solar panels and other green building innovations. What do you see as you ascend the winding staircase? Sounds of fitness center and daycare center, and other common spaces, along with public tennis courts outside.
- New Flyer Industries, Minnesota and Manitoba, KPS Capital Partners: The quiet sounds of hybrid buses and other efficient transit systems, and the noisy sounds of factories, in this once bankrupt company now employing 1,800 workers with labor contracts and good health care benefits, located in towns like St. Cloud and Crookston and Winnipeg in the North Country. Named one of Canada’s most earth-friendly firms in 2008.
- Andre-Boudin Bakeries and Restaurant, San Francisco, GESD Fund: The sound of people eating and the smell of fresh sourdough bread being baked, in this 2 story, 26,000 square foot facility built in 2005 at Fisherman’s Wharf, one of the few unionized restaurants at that location. Making the best sourdough in California, this facility has a café and bistro, demonstration bakery and museum.

In Conclusion

- My Favorite Quote from Book: FDR said that we have always known that heedless self-interest is bad morals. Now we know it is bad economics. It is time to get the Shadow Bank Robbers out of our nest eggs.

Thomas Croft is an international expert on innovative capital strategies and jobs-oriented economic revitalization strategies. He has served as Director of the Heartland Network, a working group of responsible pension investment advocates in the U.S. and Canada. He is the author of *Up from Wall Street: The Responsible Investment Alternative*, published by Cosimo, Inc., and he commissioned *Working Capital: The Power of Labor's Pensions* (Cornell University Press, 2001). In his other day job, Croft is Executive Director of the Steel Valley Authority (SVA), a growing regional development authority in Pennsylvania.